

Single Audit Report Summary

Year Ended June 30, 2016



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How are federal programs selected for the Single Audit?

In accordance with federal requirements defined in Title 2, *Code of Federal Regulations* (CFR), Part 200, Subpart F, our office selects the major federal programs for the Single Audit based on a statewide risk assessment.

Purpose of an Audit

The purpose of an audit is to provide an objective, independent examination of an entity's financial statements and/or its compliance with laws and regulations. The auditor's work results in one of the four types of audit opinions:

Unmodified—in all material respects, the activities, financial transactions, and information reflected in the financial statements are in compliance with the authorities that govern them.

Qualified—financial or compliance deviations are material, but not widespread.

Adverse—financial or compliance deviations are material and widespread.

Disclaimer—auditors are unable to obtain sufficient, appropriate audit evidence to issue an opinion.

As a condition of receiving federal funds, a Single Audit of the state's compliance with federal grant requirements must be completed. In addition, the state's financial statements must be audited.

What is Tennessee's Single Audit?

Each year, the Comptroller of the Treasury's Division of State Audit performs a risk assessment and audits certain federal programs administered by state agencies. We review the state's systems of internal control over federally funded programs and

compliance with program regulations. The audit's objective is to determine Tennessee's compliance with federal requirements regarding how those funds were used.

The 2016 *Single Audit Report* was released in March 2017, and is available at www.comptroller.tn.gov/repository/SA/2016_TN_Single_Audit.pdf.

Overview of the CAFR

The State of Tennessee's management is responsible for preparing the *Comprehensive Annual Financial Report* (CAFR). The financial statements in the CAFR provide a comprehensive view of the state's financial activities during the fiscal year. Our office is responsible for auditing and expressing an opinion on the state's financial statements.

The CAFR is available at www.tn.gov/assets/entities/finance/accounts/attachments/cafr_fy16.pdf.

2016 Federal Dollars Spent vs. Audited
(in billions)



Auditors reported findings with federal program noncompliance in areas including:

- Activities Allowed or Unallowed
- Allowable Costs/Cost Principles
- Cash Management
- Eligibility
- Procurement, Suspension, and Debarment
- Reporting
- Subrecipient Monitoring

Audit Findings and Questioned Costs

According to CFR 200.516, conditions that are required to be reported as audit findings occur when there are instances of

- **noncompliance** with federal laws and regulations; or
- **deficiencies in internal controls**, such as deficiencies in the design or operation of policies and procedures that are necessary to safeguard public funds and ensure compliance with laws and regulations.

Audit findings that relate to noncompliance may include questioned costs—for example, unallowable costs, costs not supported by adequate documentation, or costs that appear unreasonable. It is the responsibility of the federal agencies that awarded the funds to determine whether the questioned costs identified during the audit are disallowed and require repayment to the federal government.

Internal Control

There are two levels of deficiencies reported in audit findings:

A **material weakness** is the most serious level of internal control weakness.

A **significant deficiency** is a moderate level of internal control weakness.

Corrective Action Plan

In response to audit findings and recommendations, state agencies must develop corrective action plans to submit to federal awarding agencies. The federal grantors are responsible for issuing final management decisions on the state's findings, including any directives to repay the federal grants. During future audit periods, our office is required to determine whether agencies have taken full corrective action, partial corrective action, or no action.

In the 2016 *Single Audit Report*, we reported **29** new findings and **39** repeat findings. These relate to Tennessee's noncompliance and/or internal control deficiencies over compliance with federal requirements.

State Agencies With Repeat Findings in 2016*

STATE AGENCY	REPEAT FINDINGS	NEW FINDINGS	TOTAL FINDINGS	KNOWN QUESTIONED COSTS
EDUCATION	3	5	8	\$781,612
HUMAN SERVICES	28	13	41	\$42,434,683
LABOR AND WORKFORCE DEVELOPMENT	8	6	14	\$29,513
TRANSPORTATION	1	1	2	\$544,840

*For details on the findings, please see the full 2016 *Single Audit Report*. Finding 2016-068 pertains to more than one agency and is counted more than once.

2016 Single Audit and CAFR Report Highlights and Results

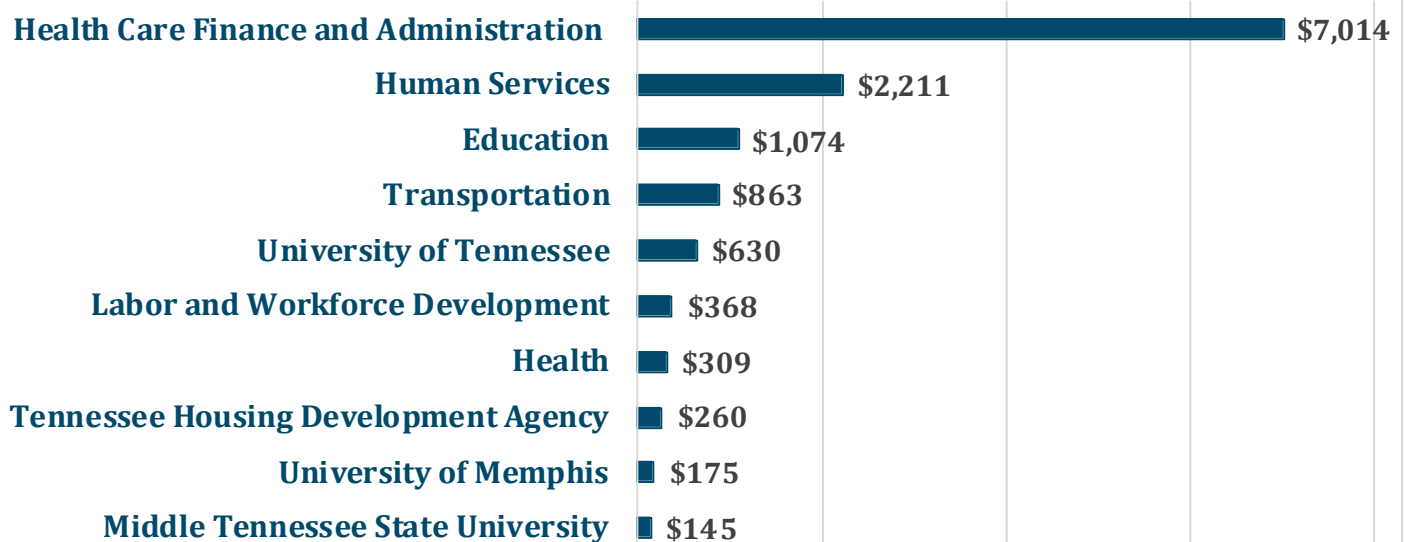


- We identified material weaknesses in internal control over major programs.
- We identified significant deficiencies in internal control over major programs.
- We issued qualified opinions on compliance for these programs:
 - ~ Child and Adult Care Food Program,
 - ~ Adult Education—Basic Grants to States,
 - ~ Rehabilitation Services—Vocational Rehabilitation Grants to States,
 - ~ Child Support Enforcement, and
 - ~ Child Care and Development Fund Cluster.
- We reported approximately \$44 million in questioned costs.
- We issued unmodified opinions for each of the other major federal programs.
- We identified significant deficiencies in internal control over financial reporting.
- We issued an unmodified opinion on the state's financial statements.



Top 10 State Agencies for Federal Financial Assistance in 2016

(in millions)





State Agencies With No Findings

There were three state agencies with major federal programs audited that had **no findings** in the 2016 *Single Audit Report*:

STATE AGENCY

- ★ HEALTH
- ★ MILITARY
- ★ TENNESSEE HOUSING DEVELOPMENT AGENCY

Resolved Findings

These agencies' corrective actions resulted in complete resolution to findings reported in the 2015 *Single Audit Report*, and were not repeated as part of the current *Single Audit Report*. See the table below for results.

STATE AGENCY	NUMBER OF RESOLVED FINDINGS
ECONOMIC AND COMMUNITY DEVELOPMENT	2
EDUCATION	2
FINANCE AND ADMINISTRATION	2
HEALTH	2
HUMAN SERVICES	5
LABOR AND WORKFORCE DEVELOPMENT	4
TRANSPORTATION	2
TENNESSEE STATE UNIVERSITY	1
TENNESSEE TECHNOLOGICAL UNIVERSITY	1
UNIVERSITY OF TENNESSEE	1

Message from the Director

Management of each Tennessee state agency is responsible for compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to its federal programs. The state spends approximately \$14 billion annually in federal funds for programs within our state that benefit its citizens. Just as each state dollar is subject to accountability, so is each federal dollar spent.

The Tennessee General Assembly is authorized to oversee the management of each state agency. The legislature may act, as necessary, when agency management is unable or unwilling to make the necessary changes to correct repeated deficiencies identified through the audit process. The Comptroller's Division of State Audit is responsible for informing the members of the Tennessee General Assembly and the citizens of our state whether agencies use resources properly and are in compliance with regulations, laws, and contracts.



Deborah V. Loveless, CPA
Director, Division of State Audit



About Our Office

The Comptroller of the Treasury is a constitutional officer elected by a joint vote of both houses of the General Assembly for a two-year term. State law prescribes the Comptroller's duties, which include the audit of state and local government entities and participation in the general financial and administrative management and oversight of state government. The Comptroller is also a member of various committees, boards, and authorities of state government.

The mission of the Comptroller's Office is to make government work better.

The Division of State Audit aids the legislature in ensuring that state government is accountable to the citizens of Tennessee. State Audit conducts financial and compliance audits, performance audits, information system audits, and special studies to provide the General Assembly, Governor, and citizens of Tennessee with objective information about the state's financial condition and the performance of the state's agencies and programs. All of our audits are conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Audit reports can be found at:

www.comptroller.tn.gov/sa/AuditReportCategories.asp

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Report Fraud, Waste, or Abuse

Comptroller of the Treasury Fraud Hotline

1-800-232-5454

Notifications can also be submitted online at:

www.comptroller.tn.gov/hotline

